THE PRINCE'S REGENERATION TRUST

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The Rt Hon Grant Shapps MP
Minister for Housing and Local Government
Department for Communities and Local Government
Eland House
Bressenden Place
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Dear Minister,

It was a pleasure to meet you the other week for what was, I felt, a fruitful and productive discussion.

As part of our talks you mentioned that the proposed 'Buy Now, Pay Later' scheme for public land, currently being considered by HMG, may help address financing and funding gaps for heritage regeneration projects. You mentioned that your officials would be happy to provide a brief on this for The Prince's Regeneration Trust and I would be very interested in, and look forward to, receiving such a document.

In turn I am pleased to enclose, as promised, a report done by the new economics foundation (nef) which outlines the economic, social and environmental benefits from creating incentives for the repair, maintenance and use of historic buildings. The report was based on new research, existing studies and nef full cost-benefit analysis.

The report proposes a scheme which will:

1. Extend listed places of worship VAT reimbursement grants to listed building owned by charities offering public access

2. Use VAT 'refund' grants, akin to the scheme for listed places of worship, to create incentives for the re-use of up to 10 locally historic buildings in the UK's 88 most deprived areas.

The cost of this scheme in the first year of operation would be £13 million rising to a maximum of £48 million in the tenth year. However, the social, environmental and local economic

benefits created would mean that the scheme would deliver a net gain to the Exchequer of £11.5 million in the fourth year and that the benefit delivered would continue to grow over the life of the scheme.

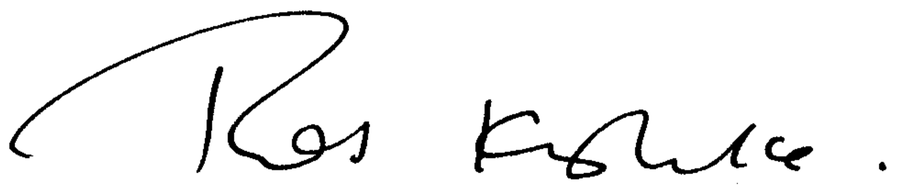
Benefits outlined include:

- Strengthening local communities and regeneration
- Supporting third sector capacity and volunteering
- Encouraging sustainability and the preservation of the historic environment.

I hope that this report will prove of interest to you and will highlight that there is evidence to present to Treasury on how the alleviation of VAT will actually encourage economic activity and generate additional revenue.

If you would like to discuss this report, or heritage regeneration generally, in more detail I would be delighted to meet again with you and your officials.

Kind Regards



Ros Kerslake
Chief Executive

nef

economics as if people
and the planet mattered

Value Added: the economic, social and environmental benefits from creating incentives for the repair, maintenance, and use of historic buildings.

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1. Executive summary

The economic, social and environmental benefits of creating incentives for the repair, maintenance, and use of historic buildings

Extending the Exchequer's *Listed Places of Worship Grant Scheme* would enable local communities across the UK to restore Britain's historic assets to full public use, creating employment, safeguarding distinctiveness and stimulating regeneration in some of the most deprived areas of the UK.

The proposal is to:

1. Extend listed places of worship VAT reimbursement grants to listed buildings owned by charities offering public access.
2. Use VAT 'refund' grants akin to the scheme for listed places of worship to create incentives for the re-use of up to 10 locally historic buildings in the UK's 88 most deprived areas.

These single, simple, targeted measures would deliver tangible benefits to local communities and local economies (particularly in some of the most deprived areas of the UK) and would play a small, but significant role in combating climate change. By extending VAT relief on the renovation of listed and community buildings the Treasury could deliver widespread community benefit, which would also result in real economic benefits to the Exchequer in year four. The two-part proposal would extend the existing VAT exemption for places of worship to historic buildings and distinctive community buildings in some of the most deprived areas of the UK.

As **nef**'s research proves, the initial outlay for this scheme is between £13 and £48 million per year. However, the social, environmental, and local economic benefits mean that within four years the scheme would deliver a net and growing benefit to the Treasury.

- In the first year, the cost of the proposed scheme is £13 million, which is paid out in grants.
- Calculating the benefits in line with the 'heritage dividend'[1] the scheme begins creating a net gain to the Exchequer measured by jobs created, welfare benefits saved, and economic benefits in the fourth year.
- A value has been put on these benefits using existing data. However, while these gains are important, they fail to measure the full benefits of this scheme in increasing social capital through empowering local residents to improve their areas, and strengthening the social cohesiveness of communities.
- And, taking locally important historic buildings from the brink of demolition by placing incentives on their re-use and refurbishment would save 490 tonnes of carbon per year. This has huge environmental benefits as the carbon emissions resulting from demolition and rebuild compared with refurbishment and re-use are a staggering seventy times greater.

The current VAT rules: a perverse incentive

The current VAT system for the repair and maintenance of historic buildings has several perverse consequences. At present, the rules:

- Give concessions only to major alterations, provoking more change to historic buildings than is necessary.
- Discriminate against small volunteer-led charities like building preservation trusts, thus discouraging participation at the community level because of added complexity and wasted volunteer time and effort.
- Dilute the effectiveness of existing public investment in the historic environment by increasing the already-high cost of maintaining our most important buildings.
- Encourage the neglect of community assets, often leading to the loss of historically important local buildings.
- Undermine environmental sustainability by making small repairs and re-use proportionately more expensive than energy-intensive and wasteful major works, demolition or new build.

Changing the rules: the social, economic and environmental benefits

This proposal will extend the existing exemptions for places of worship to charities that make their listed buildings open to the public; and create a targeted measure to include locally significant buildings in the 88 most deprived local authorities. This will support regeneration and local enterprise, encourage the preservation of local distinctiveness, strengthen third sector involvement in local communities, promote volunteering, and underscore environmental sustainability in historic conservation.

The direct benefits of the proposed scheme include:

Strengthening local communities and regeneration

- Encouraging community-led use and re-use of local assets.
- Boosting regeneration and local enterprise in some of the most deprived areas of the UK through the wider 'heritage dividend'.

Supporting third sector capacity and volunteering

- Making more effective and efficient use of scarce third sector funds and the volunteer resources that underpin efforts to strengthen local communities and preserve local distinctiveness.
- Extending benefits to small charities that are similar to those currently available to trading companies that offset VAT costs against VAT on trading income.

Encouraging sustainability and the preservation of the historic environment

- Reducing the long-term costs from major works that result from neglect and encouraging ongoing proactive repair.
- Promoting sustainable re-use of buildings and construction materials and conserving embodied energy.
- Reducing the incentive to make unnecessary major changes to listed buildings (in order to secure VAT exemption).

The benefits of this proposal are clear, particularly since a mechanism for achieving them is already in place. Extending the *Listed Places of Worship Grant Scheme* is a simple and effective way to reap wide-reaching social, economic, and environmental dividends. Heritage Link, which submitted a complementary

proposal to the Treasury in January 2007, and English Heritage[2] are supportive, and initial conversations with the Church of England and the Charities' Tax Reform Group also indicate support for the proposal.

This proposal presents evidence of the following three points:

1. The problems created by current VAT rules on repair and maintenance of listed buildings.
2. Extending the *Listed Places of Worship Grant Scheme* – a targeted and efficient solution.
3. The costs and benefits of extending the *Listed Places of Worship Grant Scheme.*

2. The problem

Problems created by current VAT rules on repairs and maintenance to listed and historic buildings

VAT rules privilege change to historic buildings

Major projects that change and adapt listed buildings to new uses, provided they receive local authority consent, are zero VAT rated. Where historic buildings are repaired or restored and their appearance and character are not changed, the full rate of VAT is charged. This acts as a strong incentive to make more changes to historic buildings than are necessary in order to benefit from the exemption. This incentive to *change* is at odds with Government policy on planning for historic buildings, which aims to preserve the historic fabric and emphasises the desirability of repair over alteration.[3]



Anchor Mills

In cases like Anchor Mills in Paisley, Scotland, organisations like the Prince's Regeneration Trust, which convert listed buildings for new commercial and residential uses, are able to benefit from zero ratings in converting to 'relevant residential purposes' and the ongoing repair and maintenance are borne by the commercial entities and the private tenants that occupy the spaces. While this is a useful situation in cases like these, smaller local efforts to keep buildings in good repair, to restore them to their original uses, or to provide community, social enterprise or charity space, are excluded and disadvantaged.

VAT on repair and maintenance halts worthwhile repair and re-use of listed buildings

The cost of keeping listed buildings in good repair is notoriously high, because of the need to use materials that are not popular today and the highly specialised skills required to work with them. For this reason, the irrecoverable VAT on repair and maintenance that charities must pay out adds to the costs, stopping these projects going forward.

The examples below show the types of projects undertaken by smaller organisations, such as building preservation trusts, utilising local volunteer-led efforts. They show how the VAT costs incurred compare with the scale of repairs needed to bring local architectural gems back into public use.

Howsham Mill, Howsham, North Yorkshire

Howsham Mill is a Grade II listed Georgian watermill on the River Derwent in North Yorkshire. It is a unique example of an early Gothic Revival watermill, and was in practical use until 1947. After falling into disrepair and facing demolition, the mill is currently being restored as an educational centre promoting renewable hydro energy. The work is being undertaken by a small community-based charity and building preservation trust, the Renewable Heritage Trust, set up specifically to bring the mill back into use.



Howsham Mill
(Photo: Tony Bartholomew)

Since the restoration project started three years ago, the charity has brought together 200 local supporters, as well as other volunteers through Community Service Volunteers and the Duke of Edinburgh's award scheme. The project has acted as a focus for community building in the area - a particularly significant local impact as the area contains a scattered collection of commuter villages due to its proximity to York. The charity will encourage ongoing voluntary commitment once the mill is up and running.

The cost of repair work to the main mill building, the wheel-chamber and outbuilding is estimated at £72,300 (the rest of the project involves major alterations and installation of a new water wheel). The charity expects to incur a VAT bill of £12,653 on the repair component of the project. If VAT relief were available, the amount saved would almost entirely pay for restoration of the roof on the wheel-chamber and outbuilding.

Locally important buildings in deprived areas

While the VAT costs on repair and refurbishment prohibit work on listed buildings, they also constrain the re-use of locally important buildings that could aid in regeneration and promote local economic activity. The Hastings Trust Offices, the Bargehouse at Oxo Wharf, and village halls illustrate three types of projects that would benefit from the proposed scheme.

Hastings Trust Offices, 35 Robertson Street, Hastings

The Hastings Trust is a charity that supports employment, training and volunteering initiatives in Hastings. Its headquarters is in a refurbished Victorian building located in one of the most deprived wards in the country. The building is in a conservation area, and stands on land significant in local history for being occupied by residents after land ownership disputes in the early 1800s (so much so that the occupiers declared their independence from the town).

The Trust bought the building in 1997 and undertook renovation work costing £120,000 (on top of the £65,000 it cost to buy the building). The building's purchase and refurbishment were funded by a variety of sources, including Single Regeneration Budget and English Partnerships funding, as well as a Charity Bank loan. The Trust paid full-rate VAT on the renovations – a total bill of £21,000. At the time this could have paid for two full-time trainee jobs, such as a resource centre worker and an environment project worker. As it was, the Trust ran out of money to finish the refurbishment work so the ten staff members ended up having to paint their own offices themselves.

The Hastings Trust is also a building preservation trust, and buys and renovates buildings for use by not-for-profit organisations, such as social enterprises and community groups. Because of the lower rents it charges, it is not in competition with other local landlords – it fills a gap within the local property market for social purpose organisations. VAT relief on refurbishment of these buildings (which include locally important buildings such as an old dairy) would therefore help the Trust to provide space for organisations working for the economic and social regeneration of Hastings.

Bargehouse, Oxo Tower complex, Southwark, London

The Bargehouse behind the Oxo Tower is an old industrial building that could be converted into arts/community facilities and retail units. It is currently used for temporary exhibitions, but needs continual patching up – the building's insurers are concerned, for instance, about its water-tightness.



Bargehouse, Oxo Tower complex (Photo: Coin Street Community Builders)

Here, costs prevented the Bargehouse from being renovated when work was done on the Tower itself. It would cost up to £6 million to renovate the Bargehouse, with a VAT bill of around £525,000. (Some VAT costs, on the renovations to retail space, could be reclaimed.) Coin Street Community Builders say the cost is the reason that work has not gone ahead, and that VAT relief would make it possible. Refurbishing the Bargehouse would benefit the local economy and community by reinforcing the regenerative effects from the renovations to the Oxo Tower.

Village halls

Village hall refurbishments are prime examples of the local, community-based efforts that would benefit from VAT relief on renovations to locally important buildings. Around 6 per cent of village halls are listed, with 30 per cent in conservation areas. Unlisted village halls are usually locally significant buildings; the majority were built in the 1920s and 1930s, although many are converted Victorian school buildings.

Beyond their heritage value, village halls serve as important community hubs – for example in providing space for pre-schools and community activities, such as lunch clubs for the elderly. This is particularly so in rural areas. There are no national figures on the number of village halls in deprived areas, although an indication is given by Lancashire. There are approximately 160 village halls in Lancashire, where four of the county's 12 districts are among England's most deprived areas. This gives an average of 13 village halls per Lancashire district (including in the four most deprived districts).

Given their age, many village halls need refurbishment and modernisation. **nef**'s initial research has identified that these costs can range from £50,000 to £400,000 to bring a building up to scratch and to allow it to host activities benefiting the local community. Raising renovation funds typically falls to local societies and village hall committees, which rely on the voluntary efforts of local people. Local communities often struggle to secure funding for village hall renovations, as the example below illustrates, and VAT relief would make a significant difference to these community projects.

Barley Village Hall, Barley, Pendle, Lancashire

Barley Village Hall, housed in a nineteenth century Methodist chapel, is a focus for many community activities in this rural part of Lancashire. It is used by a variety of local organisations, including toddler groups, the Parish Council, the Women's Institute and the local Young Farmers' club. Barley itself is located in one of the most deprived areas of England.



Barley Village Hall

The building has been used as a village hall for over 50 years, and in recent years has suffered from damp throughout and rot in the floors. It also needed general modernisation, such as new stairs to replace the steep and dangerous stairs put up in 1941 for 'temporary' access to upper areas.

After a long struggle to secure the necessary funding, the village hall committee and a few dedicated local people undertook repair and refurbishment work in 2006. The cost of this round of renovations, before VAT, was £52,480. No VAT relief was available on the work, so VAT was paid at the full rate – amounting to over £9,000, a large sum for a small community-run effort. The total amount paid for the village hall repairs was £61,663.

The £9,000 paid out in VAT could have covered the cost of additional repairs planned but not yet undertaken; for example, fixing leaks from damaged coping stones on the building's gables, which is projected to cost £7,250. Alternatively, the

VAT already paid could have been spent sand blasting and repointing the exterior stonework, which is expected to cost £3,900.

VAT rules put smaller charities with low trading income at a disadvantage

Even if conversion enables zero rating, once a restoration has taken place, ongoing repair and maintenance works to all buildings incur full VAT. While trading companies may reclaim VAT as part of the balance between input and output tax, passing the VAT on to the 'final consumer' regardless of the building type, it is often impossible for charities to do this, making their repairs to historic buildings doubly costly. In principle, the charity is the 'final consumer'. In practice, this means charities pay more.

Smaller charities, especially those like local building preservation trusts set up to protect a locally important structure, are often small, voluntary, and not VAT registered. In order to have the opportunity to reclaim VAT they would need to become VAT registered, although they turn over far less than the recommended threshold of £60,000 or more. This adds a disproportionate administrative burden, and increases costs. It also means that these small voluntary groups must charge VAT on fundraising sales and the membership fees they receive from their neighbours. In addition, they pass on the costs of repair and maintenance to their 'customers', which are often small charities, micro-enterprises, and social enterprises unable to reclaim VAT for the same reasons. The following examples show the effects on small charities.

Pennybank Chambers, Clerkenwell, London

Pennybank Chambers in Clerkenwell, London, is disadvantaged by current VAT rules that do not allow it to claim relief on repairs and maintenance. The charity that runs this locally important building offers workspaces solely to small creative sector businesses, designers and craftspeople. It could, as commercial enterprises do, 'opt to tax' the rents it charges to tenants and then recover the VAT it pays on repair and maintenance work. Because it wants to encourage creative activity, however, it has decided not to do this – if it did, its tenants would likely be priced out of the area.

As a result, the charity is at a disadvantage because it absorbs the cost of VAT on refurbishment and maintenance itself. This has meant it has had to put a self-imposed limit of £100,000 on renovation projects, which restricts its options on refurbishment work.

Stuckey's Warehouse, Langport, Somerset

In the case of the current Stuckey's Warehouse renovation in the Somerset Levels, it is the building's prospective tenants – social enterprises and business start-ups – that will be disadvantaged by existing VAT rules. Like Pennybank Chambers, Stuckey's Warehouse does not get automatic VAT relief on repairs and maintenance. It has decided to take up the option to tax rents charged to its tenants so that it can recover the VAT paid on refurbishments and maintenance. This was felt to be the only viable course of action, as the scheme will otherwise become unfundable.



Stuckey's Warehouse
(Photo: Ecos Trust)

For future tenants, however, this means higher costs for their places in this Grade II listed building. Over a ten-year period, tenants will incur VAT expenditure of an estimated £4,088 per annum. As the Stuckey's Warehouse renovation explicitly aims to offer space to social enterprises and new small businesses, the added VAT burden will fall on many organisations that have social rather than commercial aims. At least half of the space is expected to be rented by organisations that are not VAT registered and therefore unable to recover the VAT charged. The overall effect is likely to lessen the redevelopment's positive impact in encouraging new businesses and social enterprises, and lead to fewer business start-ups and jobs created.